FDIC State Profile

Winter 2005

South Carolina

South Carolina's labor markets remain weak in some areas.

- South Carolina's economic performance was mixed in third quarter 2005, although job growth continued at a pace below the national rate (see Chart 1). Continued employment declines in service-providers, such as education and professional services, and in the manufacturing and natural resources sectors, were largely offset by gains in other industries, including the well-paid information services sector. Growth also varied by geography. **Charleston** posted the highest pace of job creation in the state, surpassing the national average by a wide margin. With the exception of **Sumter**, which reported flat job growth, all of the state's metropolitan areas saw at least some employment gains from a year earlier. The state recently received some positive news in the manufacturing sector as Michelin announced plans to expand its Anderson-area plants and Daimler Chrysler will build small vans at a plant in North Charleston.

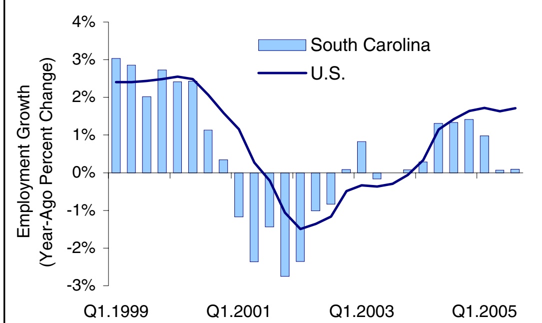
Home price appreciation has reduced affordability.

- According to the Office of Federal Housing Enterprise Oversight, home prices appreciated 8.6 percent for the 12 months ending September 30, 2005. Steady appreciation during the past five years has pushed home prices to a record level of 3.9 times household income. Moreover, affordability has been reduced as 56 percent of households in South Carolina have annual incomes of at least $36,028, which is needed to purchase the median-priced home of $154,347 using conventional financing (see Chart 2). In contrast, 62 percent of households had sufficient income to purchase the median-priced home at year-end 2004. Although affordability has declined, the state compares favorably to the nation where only 46 percent of households can afford a median-priced home. Rising mortgage interest rates could further reduce affordability.

Housing markets may be in a state of transition.

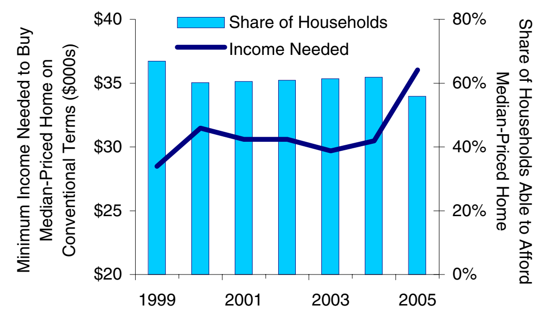
- A number of factors such as reduced affordability, higher mortgage interest rates, and lower homebuyer optimism are starting to weigh on the housing market. Recent trends suggest that an inflection point may have been reached

Chart 1: Job Growth in South Carolina Remains Weak



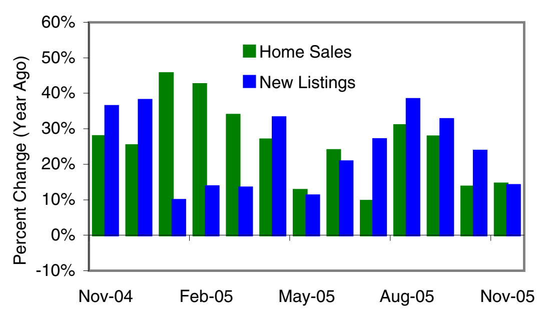
Source: Bureau of Labor Statistics

Chart 2: Affordability in South Carolina May Suffer From Higher Interest Rates



Source: U.S. Census Bureau, National Association of Realtors, Moody's Economy.com

Chart 3: Existing Home Inventories are Outpacing Sales in Charleston



Source: Charleston Trident Association of Realtors in some local housing markets as they are transitioning from a sellers' to a buyers' market. In the Charleston housing market, monthly sales of existing homes during 2005 were generally higher than the prior year (see Chart 3). However, monthly inventories of unsold homes also increased over the past few months. While inventory levels and days on market are still below late-1990s' levels, the rise in inventory may portend future price softening and longer marketing periods.

Rising energy costs may hamper the state's economic growth.

- Energy costs have increased substantially in recent years. Nationwide, over 9 percent of wages and salaries are spent on energy—the highest since the late 1980s. In South Carolina, per capita residential expenditures are estimated at $1,714 and industry experts expect the burden of higher energy prices to rise even further in 2006 (see Chart 4). South Carolina Electric & Gas raised natural gas prices by 45 percent in November 2005, which it estimated would increase the average monthly bill by $55, and electric rates by 10 percent.

Financial pressures may weigh on consumers.

- The combination of rising energy costs, interest rates, insurance premiums, taxes, and debt servicing requirements may stress consumers' finances. Prior to the implementation of the new bankruptcy law in mid-October 2005, South Carolina saw an increase in personal bankruptcy filings, which will likely be followed by a decline later in the year. However, the accumulating pressures on consumers may contribute to a rise in filings in 2006. Consumers, however, may receive some benefit if proposed cuts of property taxes and food sales taxes are enacted.

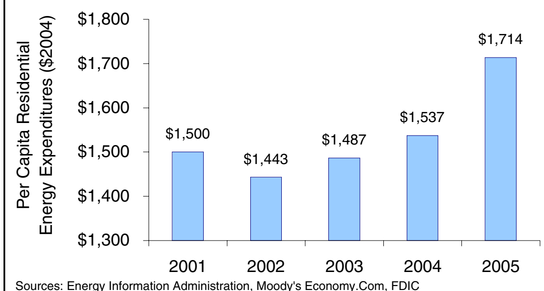
Branch office openings have increased.

- Annual Summary of Deposit data collected by the FDIC as of June 30, 2005, shows that South Carolina added 20 banking offices from a year ago. In contrast, the state only added eight offices in 2004. South Carolina ranked 33rd nationally for office growth with a rate of 1.6 percent during 2005. Office openings were concentrated in urban areas such as Charleston (6), **Greenville** (4), and **Myrtle Beach** (3). Far more branches were opened in urban areas resulting in greater branch density per population than most rural counties (see Map 1).

Banking conditions in the state remain sound.

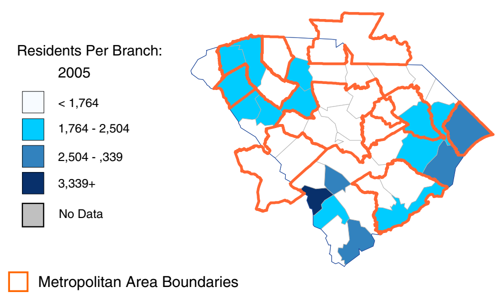
- Overall, South Carolina community banks continued their solid performance.[1] After slowing in 2004, net income soared 27.6 percent to $102 million as of September 30, 2005. This compares to just $80 million a year earlier. Net interest margins rose 17 basis points to 4.25 percent at September 30, 2005, while return on assets gained 11 basis points to 1.16 percent (see Chart 5). Robust loan growth contributed to the increase in net interest income.

Chart 4: South Carolina Residents Are Paying Significantly Higher Energy Bills Because of the Run-up in Energy Prices



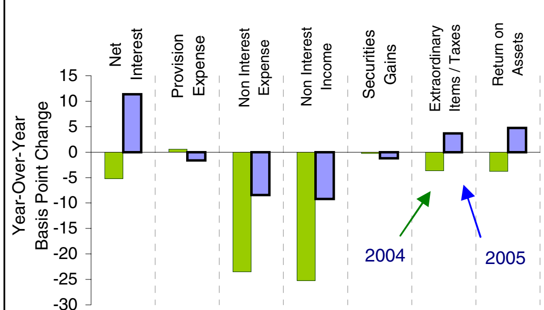
Sources: Energy Information Administration, Moody's Economy.Com, FDIC

Map 1: Many Urban Counties Have a Low Number of Residents Per Branch



Source: FDIC, Bureau of the Census, Moody's Economy.com

Chart 5: South Carolina Community Bank Return on Assets Benefited from Higher Net Interest Income



Source: FDIC, third quarter data.

[1] Commercial banks with assets less that $1billion (excludes specialty and de novo banks).

South Carolina at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.1%	0.1%	1.3%	1.1%	0.2%
Manufacturing (14%)	-2.0%	-1.6%	-1.7%	-2.7%	-4.8%
Other (non-manufacturing) Goods-Producing (6%)	-1.7%	-4.0%	0.7%	0.6%	0.5%
Private Service-Producing (61%)	0.8%	0.2%	2.1%	2.3%	1.5%
Government (18%)	0.0%	2.5%	1.4%	0.4%	0.2%
Unemployment Rate (% of labor force)	6.3	6.4	6.9	6.8	6.7

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	6.2%	6.1%	5.9%	3.5%
Single-Family Home Permits	20.5%	26.6%	13.1%	13.2%	11.9%
Multifamily Building Permits	38.7%	16.4%	4.2%	45.3%	14.8%
Existing Home Sales	18.1%	14.4%	11.1%	19.6%	14.2%
Home Price Index	8.5%	8.2%	5.8%	5.0%	3.7%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	3.66	3.48	3.72	3.68	3.94

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	95	96	97	96	97
Total Assets (in millions)	47,870	47,240	43,253	44,475	40,710
New Institutions (# < 3 years)	5	6	3	3	5
Subchapter S Institutions	3	3	3	3	3

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.44	1.23	1.47	1.35	1.67
ALLL/Total Loans (median %)	1.24	1.24	1.24	1.22	1.25
ALLL/Noncurrent Loans (median multiple)	1.98	2.24	2.00	2.07	2.18
Net Loan Losses / Total Loans (median %)	0.07	0.05	0.10	0.14	0.14

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.44	9.38	9.53	9.42	9.42
Return on Assets (median %)	1.10	1.06	1.00	0.92	0.98
Pretax Return on Assets (median %)	1.63	1.60	1.50	1.42	1.44
Net Interest Margin (median %)	4.27	4.25	4.05	4.02	4.06
Yield on Earning Assets (median %)	6.27	6.06	5.50	5.46	5.76
Cost of Funding Earning Assets (median %)	2.10	1.93	1.46	1.50	1.66
Provisions to Avg. Assets (median %)	0.19	0.16	0.20	0.21	0.25
Noninterest Income to Avg. Assets (median %)	0.77	0.74	0.79	0.79	0.88
Overhead to Avg. Assets (median %)	2.88	2.95	2.91	2.97	2.98

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	70.4	70.3	69.9	70.9	67.4
Noncore Funding to Assets (median %)	24.5	24.9	23.9	24.0	22.5
Long-term Assets to Assets (median %, call filers)	10.3	11.0	12.1	12.3	12.4
Brokered Deposits (number of institutions)	35	32	27	26	20
Brokered Deposits to Assets (median % for those above)	5.8	6.6	4.0	7.4	3.0

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	71.2	74.1	84.0	87.1	91.6
Commercial Real Estate	290.8	282.2	246.4	252.1	229.2
Construction & Development	95.5	86.5	61.2	66.0	53.7
Multifamily Residential Real Estate	2.9	3.0	2.9	3.5	3.8
Nonresidential Real Estate	172.0	167.2	164.8	171.9	164.3
Residential Real Estate	227.2	236.7	235.7	234.6	232.9
Consumer	38.2	38.0	43.8	44.3	52.0
Agriculture	3.9	3.6	4.5	4.5	5.3

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Charlotte-Gastonia-Concord, NC-SC	43	90,216	< $250 million	62 (65.3%)
Columbia, SC	24	10,366	$250 million to $1 billion	25 (26.3%)
Greenville, SC	28	9,406	$1 billion to $10 billion	8 (8.4%)
Charleston-North Charleston, SC	22	7,161	> $10 billion	0 (0%)
Augusta-Richmond County, GA-SC	16	5,486		